

# **Innovations for Scale and Sustainability in EITC Campaigns**

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**Partnering with Commercial Tax Preparation Firms:  
Lessons from Atlanta, Baltimore and New Jersey**



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## Partnering with Commercial Tax Preparation Firms: Lessons from Atlanta, Baltimore and New Jersey\*

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### I. Background

The Annie E. Casey Foundation has been an active supporter of Earned Income Tax Credit Campaigns across the United States. Building on existing infrastructures in their communities, these campaigns provide: (1) education and assistance to promote the EITC and other tax credits for qualified working poor families; (2) free or low-priced quality tax preparation services; and (3) links to other programs and services so that tax filers can use their refunds to begin building financial assets.

While the campaigns have helped hundreds of thousands of low-income workers receive tens of millions in tax refunds, they have proven to be expensive and labor-intensive to operate. Given the campaigns' ambitious goals and limited resources, there has been increasing interest in identifying alternative models that have greater potential for scale, sustainability and impact. Beginning in late 2003, the Aspen Institute began identifying sites interested in piloting innovations (providing technical assistance and grant support in some cases) and documenting the results of these early efforts.

*Among these innovations, EITC campaigns in Atlanta, Baltimore and New Jersey all explored the potential for partnering with a commercial tax preparation firm. The goal of all campaigns was to significantly increase their capacity to achieve campaign goals around EITC participation by expanding the availability of free or low cost tax preparation services.*

### II. The Atlanta Experience

Consumer Credit Counseling Service (CCCS) of Greater Atlanta explored partnering with a commercial tax preparer as an alternative to operating free tax sites. CCCS determined that free tax preparation would require an unrealistic investment of resources – staff, time and money – while still not meeting the needs of all EITC-eligible residents of the target Pittsburgh neighborhood. In 2004, CCCS undertook a planning effort to better understand the tax preparation business and identify the conditions under which a local firm might deliver services at negotiated rates to Pittsburgh residents.

CCCS began with the premise that partnership with a commercial preparer would:

- Increase overall EITC utilization rates

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- Bring convenient, affordable services to the community
- Provide a volume of activity that would be attractive to the for-profit provider
- Offer pre-negotiated rates for tax preparation and Refund Anticipation Loans (RALs)
- Add a safe outlet for services to protect consumers against predatory practices
- Build awareness of the value of the EITC and increase long-term asset development

CCCS met with representatives of the three major tax preparation companies – H&R Block, Jackson-Hewitt and Liberty Financial – to explore the potential for partnership. CCCS proposed to subsidize the cost of tax preparation for residents and to market the tax services through community-based organizations, including outreach to clients of financial education programs. All three companies expressed an interest in the idea. In particular:

- All three companies said that they would only enter into a partnership with the expectation that it would be profitable.
- Fees are determined by the number of tax schedules filed. Approximate fees for preparation of basic EITC returns were \$130 at all three companies. Additional fees would apply to more complicated returns (applicable to an estimated 25% of filers).
- The companies offered to provide discounts of 20% to 50% on tax preparation fees, depending on volume of referrals and other factors. While volume was a factor in pricing, no firm set a minimum volume as a requirement for partnership.
- According to the firms, approximately 50% of customers want a RAL and would go elsewhere if RALs were not available. RAL costs vary by firm and loan amount, but typically cost \$75 to \$90. The companies have less flexibility, due to contractual commitments with the banks that make the loans, to negotiate lower prices for RALs.
- The companies believe that there is already a strong awareness of the EITC in the community and that most people who qualify are already aware of their eligibility.
- The firms echoed what many social service agencies have heard from clients – that there is little concern about the cost of the tax preparation or RALs because the EITC is thought of as “free” money.
- Regarding asset building opportunities, the companies noted that the longer filers have received the EITC, the greater likelihood that they will have borrowed against it or “spent” it already in anticipation of a refund.
- None of the companies currently has an office in Pittsburgh. Because convenience is so important, a new location would need to be identified in the community.
- All three firms said they would be willing to collect data on clients and share data for research purposes.

CCCS is currently moving forward with a partnership with Liberty Financial. The two are working to identify a location for Liberty to use as a satellite office in the 2005 tax season. According to Liberty’s proposal, the ideal space would be inside a “local church, community center, school, or some other public use facility.” Liberty would set up 3-5 computer stations and provide all equipment, materials and site personnel. Preparers would be available 6 or 7 days a week, for 10 to 12 hours a day on weekdays and 8 to 10 hours on weekends, during the peak weeks from mid-January through the first week in February; staffing and hours would be

adjusted based on demand the remainder of the tax season. All customer interactions would take place on site, and Liberty would coordinate with another office for pick-up and delivery of the tax return disks, RAL/ERC checks, and taxpayer copies of completed returns.

Under the partnership, the price of tax preparation would be discounted by Liberty and further subsidized by the EITC Campaign (with the amount of subsidy still to be determined). Liberty would charge a flat fee of \$85.00 for preparation of basic federal and state returns (RAL customers would be charged \$70 for tax preparation, since RAL fees would not be discounted). For more complicated returns, Liberty's standard fees would be discounted by 25%. If fewer than 500 returns are prepared at the site, Liberty would raise its fees to \$100 (\$85 with RAL) and a 20% discount for complex returns. In addition, Liberty would offer quarterly financial education seminars on the EITC, tax documentation, and related issues.

### **III. The Baltimore Experience**

In the 2004 tax season, the East Harbor Community Development Corporation, a lead partner in the Baltimore EITC campaign, entered into a formal partnership with a local H&R Block office. While East Harbor runs a free tax site, it viewed the partnership as an opportunity to bring added value to the campaign and the community. The thinking went as follows:

- The free tax site is unable to serve many community residents, because their income exceeds site limits, their returns are too complicated for volunteer preparers or the site lacks capacity at peak times.
- Since residents who cannot be served at the free tax site will go to a paid preparer anyway, it makes sense to try to negotiate a better price for them.
- There are some customers whom it doesn't make financial sense for H&R Block to serve, such as those receiving little or no refund who cannot afford to pay for tax preparation.
- H&R Block clients can benefit from asset-building services offered by the campaign.

The partnership was a simple agreement whereby each would refer customers to the other. The campaign would send people they could not serve to H&R Block with a coupon for \$20 off the price of tax preparation. H&R Block would refer people it could not serve to the free tax site and would distribute information to all customers about East Harbor's asset development center. The agreement did not require any minimum volume of referrals in either direction.

The partnership model is not new to H&R Block, and is part of their overall marketing strategy. For example, the Memorandum of Understanding signed by the two partners was the same basic language used by H&R Block with a local Home Depot. For this agreement, however, H&R Block offered to double the value of the coupons to \$20 rather than the usual \$10. The one area where they would not compromise, however, was regarding Refund Anticipation Loans (RALs). East Harbor did not want H&R Block to market RALs to referred clients, but the company insisted that the market demands the product.

In the end, the partnership did not meet expectations, for a number of reasons. Most fundamentally, the number of tax filers who could not be served at the free tax site was minimal, due to expanded training and eligibility as well as a new centralized screening process. East Harbor estimates they only referred 20 people all tax season. There was no information on referrals in the other direction.

#### **IV. The New Jersey Experience**

The New Jersey Department of Human Services (DHS) conducts an annual EITC Campaign to promote federal and state credits. DHS offers training on EITC eligibility and filing requirements for staff at community-based organizations and, in partnership with a local utility company, produces and distributes bi-lingual (English/Spanish) flyers promoting the credits. While DHS does not directly operate free tax sites, it encourages local groups to do so, and connects interested organizations with their IRS representative. DHS's outreach includes providing tax filers with information about free tax sites in their community. DHS is very interested in increasing the availability of free or affordable tax preparation for low-income working families.

After the 2003 tax season, DHS was approached by Liberty franchise owners in two counties (Essex and Passaic). The entrepreneurs had opened local tax preparation offices and were looking to expand their business. They offered to prepare tax returns for EITC-eligible individuals free of charge. For its part, the state agreed to advertise the availability of the free Liberty tax preparation in all the same ways it advertises IRS-sponsored sites.

The Liberty franchises saw this as an opportunity to brand their name in the community and "show off their good service." Facing strong competition from other preparers, they believed that the free service would draw customers from better-known chains, and that those individuals would both return as paying customers in future years and tell their friends and neighbors about Liberty. While Liberty expected to lose some money in the short term, this was an investment in developing a brand and customer base. Furthermore, in the short term, the franchise owners found that donating time for free tax preparation was more financially viable than conducting an advertising campaign.

The proposed partnership was very informal, with nothing in writing and many unanswered questions about exactly how it would work. Essentially, the two franchise owners said that they would provide free tax preparation and e-filing for all EITC-eligible filers. However, they also suggested that they would only do free tax returns when they had "down time" – that is, when there were no paying customers to serve. Given that the offices are generally full during the peak weeks of late January and early February, this suggests that EITC filers would only benefit from the promotion later in the season. In addition, Liberty was unclear about whether or not it would market Refund Anticipation Loans (RALs) to EITC filers. The franchise owners seemed to suggest that they would not actively push the products, but would still make them available – and the expectation was that customers would want RALs.

As with Baltimore's experience, not much came of the partnership in the end. While both sides began with good will and high expectations, neither DHS nor Liberty followed up with

the other as tax season approach and workloads increased. DHS was also discouraged by concerns raised by local IRS staff regarding Liberty's plans to offer RALs (while the IRS has no official control over the partnership, they expressed concern over whether the service would truly be free, as marketed). Despite the lack of follow-through in 2004, however, DHS is still interested in exploring any opportunities to partner with the private sector in order to expand EITC outreach and the availability of free tax preparation.

## **V. Lessons for Scale, Sustainability and Impact**

Free tax preparation currently reaches only a tiny share of EITC-eligible filers, while more than half of those filers use commercial tax preparation firms. Given the relative scale of each, as well as the challenges to growing the free tax preparation field in its current form, it makes sense to look for opportunities to partner with paid preparers. And yet, it remains unclear whether a middle ground can be found between the goals of EITC campaigns and the profit motive of commercial preparers. Furthermore, the Baltimore and New Jersey examples illustrate some of the challenges to implementing a partnership, even where both parties are interested in doing so.

A larger number of partnerships are planned for the 2005 tax season. While not all have been finalized, it appears that they will take a variety of forms and that some may be quite large. Moving forward, it will be useful to follow these partnerships to learn more about this approach, its benefits and risks, and its potential for helping campaigns achieve scale, sustainability and impact – as well as where the added value lays. In doing so, some key questions should be considered, including:

- To what extent will this really increase total EITC claiming? What is available capacity at commercial preparers and to what extent will they increase capacity to meet extra demand from a partnership?
- What are the benefits to commercial preparers of partnership? What value does the non-profit bring to the table and how can it maximize the value it brings?
- Are there ways to balance the concerns of EITC campaigns about the motives of commercial preparers with the need of industry partners to make a reasonable profit for their owners or shareholders?
- What would be an acceptable price for tax preparation? Are the discounts being offered by the commercial preparers sufficient or should campaigns be asking for more?
- Preparers seem inflexible on the issue of offering RALs to EITC customers. Is this a deal-breaker? Under what conditions – such as price, marketing, disclosure – would it be acceptable to partner with a firm that offers RALs?
- What are differences between partnering with company-owned offices of large chains, franchises of chains, or independent preparers? What opportunities, limitations and operational issues are presented by each?
- If commercial preparers are not located in the target community, what is the best way to work with them? What volume would be required to open a new office? What are the implications of providing space at a non-profit organization for a commercial preparer?

- How can partnerships with commercial preparers be used to promote asset development? How successful would cross-referral be, and are there other strategies to try? How does this fit in with the cross-marketing some preparers already do of financial products (from mortgages to Rent-to-Own)?